HORSE OWNERSHIP

Establishing as a business.

- Basic questions
- Creating a business plan
- Choosing an entity structure
  - Basic concepts
  - Liability
  - Advantage and disadvantages

Basic Questions

- 1. Who will own the business?
- 2. How many people will make the day to day decisions?
- 3. How much participation do the owners want to have in the operations?
- 4. Will you obtain advice from others who operate similar businesses?
- 5. What will your initial capital investment be?
- 6. What are the long-term goals?
- 7. What are the risks involved?
- 8. Have you considered a business plan?

Other Considerations

- Have you chosen a name? If so, have you registered it with the State?
- Have you applied for a federal identification number (EIN)?
- Have you opened a separate bank account?
- Have you developed a method for keeping track of your time?
- What aspect of the horse industry do you wish to get involved in?

Creating a Business Plan

- Provides long-term goals.
- Helps you to take a realistic look at what you are getting involved in.
- When do you expect profits?
- Critical part of any loan application.
- A continually updated planning tool.

Divide business plan into the following sections:

- 1. Business description.
- 2. Management and Operations.
- 3. Marketing Information.
- 4. Financial Information.
- 5. Supporting Documentation.

Business Plan Summary

- Should be realistic.
- Sensible assessment of your goals.
- Should direct a business.
- Should reflect your goals and general business philosophy.
- At a minimum, should include the following:
    - How the business will be owned
    - How the business will be financed
    - Projected income and expenses
    - Tax considerations

Other Business Plan Considerations

- Is it in writing?
- Does it adequately identify your goals and objectives?
- Does plan list advisors to be consulted?
- Does it explain how you will obtain initial capital?
- Does it explain how you will secure clients?
- Does it provide a timeline of progress?
- Does it project income and expenses for future years?
- Does it specify how long the business will last?

Sole Proprietorship

- Overview
- Capital
- Control
- Liability
- Taxation
- Administration

General Partnership

- Overview
- Capital
- Control
- Liability
- Taxes
- Administration

Limited Partnership

- Overview
- Capital
- Control
- Liability
- Taxes
- Administration

Corporations, “C” & “S”

- Overview
- Capital
- Control
- Liability
- Taxes
- Administration

Limited Liability Companies (LLC's)

- Overview
- Capital
- Control
- Liability
- Taxes
- Administration

Business Entity Comparisons

- Copy of EXHIBIT A 1js.pdf

FORM OF BUSINESS	TAXATION	ADVANTAGES	DISADVANTAGES
SOLE PROPRIETORSHIP	- Individual files tax return and is taxed on income from all sources, including income from horse business	- Least complicated form - Losses may be deducted from personal income - Least expensive to form and maintain	- Owner has limited liability, no legal separation between individual and business - Raising capital
GENERAL PARTNERSHIP	- Partnership files tax return, but is not taxed on income - Partners file individual tax returns and are taxed on total income, including income from partnership	- Expenses are shared - Each partner has equal say in management decisions - Losses may be deducted from personal income	- Each partner has unlimited liability for the partnership - Partnership must file a separate tax return - Partner must contribute or borrow to raise capital
LIMITED PARTNERSHIP	- Partnership files tax return, but is not taxed on income - Partners file individual tax returns and are taxed on total income, including income from partnership	- Expenses are shared - Limited partners have limited liability for the partnership - Losses may be deducted from personal income	- Passive loss limitations - Limited partners have no management control - Partnership must file a separate tax return - Partner must contribute or borrow to raise capital
REGULAR CORPORATION	- Corporation files tax return and is taxed on income - Shareholders file individual tax returns and are taxed on total income, including distributed dividends from corp. - Shareholders may not deduct corporate losses	- Lower income tax rates - Ability to raise capital through issuance of shares - Shareholders have limited personal liability	- Losses may not be deducted from personal income - Corporation must file a separate tax return
SUBCHAPTER S CORPORATION	- Corporation files tax return, but is not taxed on income - Shareholders file individual tax returns and are taxed on total income, including income from corporation - Shareholders may deduct corporate loss	- Losses may be deducted from personal income - Ability to raise capital through issuance of shares - Shareholders have limited personal liability	- Most complicated form - Corporation must file a separate tax return
SYNDICATES	- When treated as co-ownership of property, each owner files a tax return as a sole proprietor - When treated as a general partnership, same rules apply as for a general partnership that is not a syndication - When treated as a limited partnership, same rules apply as for a limited partnership that is not a syndicate	- Risks/expenses are shared	- Complex tax methods

Syndicates

- Individual owns a quality horse and is in need of financial assistance.

- Individuals are interested in the thrill of owning or participating in quality breeding stock or an exciting racing program.

Characteristics

- Enjoy in the ownership of an otherwise unobtainable horse
- Fractional cost of individually owning
- Individual tax reporting
- LLC Operating Agreement
- No limit on the number and types of investors
- Can be for a variety of purposes

Sample Offering Memorandum

Dated March 18, 2011

With Respect To

10 Units of Interest in
PENNY LANE, LLC
A New Jersey Limited Liability Company

Price: $50,000 per Unit

Minimum Offering: $500,000
Maximum Offering: $750,000

Penny Lane, LLC
Sample Business Plan

Three main components

- Private Placement Memorandum
- Business Plan (including “Source and Use of Funds” statement)
- Risk Memorandum

Private Placement Memorandum

- Extremely complex document.
- Primary purpose is to give the entrepreneur the opportunity to present all potential risks to investor.
- Very important it is accurate and complete.
- An attorney must review to assure it complies with Federal and State regulations and securities laws.

Business Plan

- 1. General Description of Transaction
- 2. Diversification
- 3.Capital Contribution
- 4. Minimum Investment Requirement
- 5. The Partnership
- 6. Management Investment
- 7. Risk Factors and Other Considerations
- 8. Limited Liability

Business Plan (continued)

- 9. Copies of Key Documents
- 10. Duties of Manager
- 11. Expenses
- 12. Sources and Uses of Funds
- 13. Tax Benefits
- 14. Distributions of Distributable Cash
- 15. Lack of Market/Liquidity
- 16.Liquidation

Business Plan (continued)

- 17. Limited History
- 18. Potential Syndication
- 19. Potential and Actual Conflicts of Interest
- 20. Execution of Operating Agreement
- 21. Consultation with Advisors
- 22. Risk Memorandum
- 23. Company Risks

Tax Incentives for the Horse Industry

- Small business depreciation expense
- Bonus depreciation
- Accelerated depreciation for race horses

Common Mistakes When Preparing Tax Returns

- 1. Depreciating certain assets over the correct useful lives.
- 2. Avoiding estimated tax payment penalties
- 3. Recording insurance proceeds as income
- 4. Not deferring a gain on the sale of a qualify horse
- 5. Not taking advantage of the Domestic Product Activities Credit
- 6. Passive versus active rules